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Companies & Markets

SoftBank to gain $34bn by selling down Alibaba shares

- Historic shift in ties to China group
- Investors expect further handovers

LEO LEWIS — TOKYO
RYAN MCMORROW — BEIJING

SoftBank expects to post a gain of more than $34bn by turning over a chunk of its holdings in the Chinese ecommerce group Alibaba, marking a historic shift in the Japanese group's relationship with its best-known investment.

The investor had made a series of complex derivative deals that allowed it to raise cash while retaining the option to buy back the shares later. But the company said yesterday that right would now be fully relinquished with many deals settled early with shares.

The move is a step back from the 22-year-old bet on which Masayoshi Son built his name as a top technology investor. The decision, which investors said suggested further selldowns, means SoftBank's stake in Alibaba will fall from 23.7 per cent at the end of June to 14.6 per cent in September.

> SoftBank said the decision was being taken to play 'defence against the severe market environment'

The reduced stake will take SoftBank below the threshold for retaining its board seat at Alibaba and prevent the Japanese group from continuing to recognise its share of Alibaba's income in its financial statements. It will also void a voting agreement with Alibaba vice-chair Joe Tsai that required SoftBank to vote its shares at the direction of Jack Ma, Tsai and other top executives.

The selldown follows a 70 per cent drop in Alibaba's share price that began in the autumn of 2020 when the authorities in Beijing halted the blockbuster initial public offering of its Ant Group fintech arm.

SoftBank's announcement came two days after Son announced the company's worst quarterly loss of $23bn and heralded a period of "dramatic" cost-cutting. SoftBank added that it was exploring the sale of other key assets, including Fortress Investment Group.

The loss posted for the April to June period followed a record loss in the previous quarter, and prompted Son to make an eye-catching statement of regret at his previous triumphalism when tech markets were booming.

The lion's share of SoftBank's red ink was unrealised losses on the stocks, both listed and unlisted, in Vision Funds 1 and 2, its flagship technology portfolios.

The funds were hit hard by the global technology rout, though Son himself presented a chart showing that listed Vision Fund stocks had underperformed the Nasdaq.

The maximum number of shares set to be handed over represents about two-thirds of all the Alibaba shares SoftBank has sold into prepaid forward contracts that remained outstanding in mid-July.

This year the Japanese group sold about one-third of its Alibaba stake through these forward deals to raise more than $21bn in cash as Son worked to strengthen SoftBank's balance sheet.

SoftBank said that the decision to relinquish the shares now was taken to play "defence against the severe market environment" and would resolve concerns about future cash outflows while cutting costs.

In deals struck with banks such as Goldman Sachs and UBS this year, SoftBank has cashed in its Alibaba stake at prices slightly higher than the level where Ma's group began trading in New York in 2014.

SoftBank said that its counterparties hedged those transactions when the deals were struck so the current move would not create additional selling pressure on Alibaba's stock.

Fair wind Vestas says Biden's subsidies package will accelerate renewables in US for next decade

The US tax credit regime is expected to give more visibility to turbine makers such as Vestas — David Swanson/Reuters

RICHARD MILNE
NORDIC AND BALTIC CORRESPONDENT

A new subsidies package for renewable energy about to be passed in the US is "extraordinarily important" and should help improve the outlook for the under-pressure wind industry, the head of one of the world's largest turbine manufacturers says.

Henrik Andersen, chief executive of Danish wind turbine manufacturer Vestas, said that concern over whether the US could end its production tax credits (PTC) had led to "stop and go" conditions for the renewable industry in the past year, but a new climate bill should halt those worries.

"It's extraordinarily important," he said. "I think that will give some clarity and will accelerate renewables in the US for the next decade. It's important for offshore wind, onshore, solar [and] power-to-x hydrogen."

The US Senate passed Joe Biden's flagship economic package, which includes support for renewable energy technologies, last Sunday.

The bill still needs to pass the House of Representatives and be signed by the president before it becomes law.

Vestas and the rest of the wind industry have had a tough year despite rising interest in renewables following Russia's invasion of Ukraine and worries among many western countries about how they will replace Russian energy.

Vestas reported second-quarter results on Tuesday below analysts' expectations with an underlying operating loss of €182mn, versus the average forecast of a €143mn deficit.

But unlike German-Spanish rival Siemens Gamesa, which cut its full-year profit guidance again last week, Vestas held on to its forecast for an underlying profit margin of zero to minus 5 per cent. Its margin was minus 5.5 per cent in the second quarter. Shares in Vestas closed 8.8 per cent higher at DKr198 yesterday.

Andersen said it was "not an easy quarter at all" as Vestas and the renewables sector faced a "challenged world" with sharp increases in raw material costs and component prices.

He added that Vestas had been able to raise prices to the highest level in a decade, so by working through its €19bn order backlog it would move closer to profitability. He stressed that the second half of the year would compare "positively" with the first.

"There should be an improvement," he added, pointing to "six to eight" quarters of improved pricing.

Martin Wilkie, analyst at Citi, said the US's new PTC regime would give "unprecedented visibility" for turbine manufacturers in the US as it would be available on new projects until at least 2032, leading to significant upgrades for Vestas's forecast revenues from 2024 onwards.

Musk offloads $7bn of Tesla stock ahead of Twitter case

RICHARD WATERS — SAN FRANCISCO

Elon Musk has taken advantage of a recent rebound in Tesla's stock price to sell $6.9bn worth of shares in the electric-car maker since the end of last week, according to a series of regulatory filings late on Tuesday.

The sales are the first since the Tesla and SpaceX chief executive sold $8.5bn of stock in April, shortly after he agreed a $44bn deal to buy Twitter, and added to his cash reserves as he faces the social media company's demands to go through with the purchase.

Concerns that Musk would be forced to liquidate a significant part of his Tesla stake in a falling market have hung over the electric-car maker's stock price in the weeks following the offer for Twitter, and were only eased after he said he was scrapping the bid in early July.

Twitter has sued Musk to force him to go through with the deal and a Delaware court is due to hear the case in early October. Musk has claimed he can abandon the deal because Twitter misstated how much of its traffic comes from bots, while the company insisted its regulatory disclosures were complete.

The sales disclosed on Tuesday averaged at a price of $869, well above the low of $620 Tesla's shares hit in May.

Responding to a tweet asking if he was "done selling", Musk said "yes", and added: "In the (hopefully unlikely) event that Twitter forces this deal to close *and* some equity partners don't come through, it is important to avoid an emergency sale of Tesla stock."

Under the terms of his Twitter offer, Musk is responsible for financing up to $33.5bn of the purchase, with the rest coming from debt, though he has announced commitments from other investors of more than $7bn.

The Twitter deal provides for a $1bn break-up fee. But it also requires "specific performance", meaning Musk must complete the deal unless he can prove he was misled or a "material adverse event" has occurred at Twitter. He could also walk away if the debt needed to close the deal is no longer available.

That has raised the stakes ahead of the October court hearing, leaving Musk at risk of being ordered to go ahead with the deal on its original terms or forced to try to reach an out-of-court settlement with Twitter.

Additional reporting by Sujeet Indap in New York

See Lex

Prolonged dry spell casts cloud over Norway's energy fortunes

INSIDE BUSINESS
EUROPE
Richard Milne

Norway is in many ways a lucky country. Its abundant oil and gas resources are much in demand since Russia's full-scale invasion of Ukraine. Numerous rivers and reservoirs up and down the vast country mean that more than 90 per cent of its electricity needs are covered by its own hydropower.

But in a sign of just how deeply an energy crisis is shaking Europe, Norway is suddenly facing its own electricity problems that are affecting everything from politics and international relations to business.

An unusually dry winter and spring have left many reservoirs in southern Norway at historically low levels for this time of the year, leading to the government in Oslo pledging to curb electricity exports until they are replenished.

That could be a significant problem for countries from Germany and the Netherlands to the UK that have imported large amounts of electricity over the years from Norway through cables, even before Russia sparked panic about what could happen this winter.

The most striking demonstration of the problems is the gaping price discrepancy between northern and central Norway — with close to half of the country's hydropower production — and southern Norway, with all the export cables. Electricity in the three southern areas of Norway will cost between €263/MWh and €327/MWh today, but in the north and centre of the country they will be just over €1/MWh, according to the day-ahead prices from the Nord Pool power market.

The pattern has lasted long enough that some businesses are voting with their feet: Kryptovault, a Norwegian bitcoin miner, is moving its activities from the south to above the Arctic Circle to slash its power bill.

The main reason for the 160-fold difference in prices is a lack of transmission capacity between north and south. It is a similar situation in neighbouring Sweden but it leads to absurd situations.

Norway's national broadcaster NRK earlier this summer ran stories only hours apart with power companies in the north of the country complaining that prices were so low they could not afford to invest in new capacity, and industrial companies in the south complaining prices were so high they could not afford to keep manufacturing.

> The issue has leapt to the top of the political agenda in Oslo as the government warns it cannot rule out electricity rationing

The issue has leapt to the top of the political agenda in Oslo, where the government has warned that it cannot rule out electricity rationing this winter, even if it currently believes that any such restriction is unlikely.

The centre-left government faces a difficult balancing act: it has gone out of its way to present itself in Brussels as a reliable energy supplier, keen to sell as much oil and gas as it can; but it has become almost impossible to justify selling electricity abroad at sky-high prices when many Norwegians are having to pay the same. Sylvi Listhaug, leader of the rightwing populist Progress party, has called for Norway to build gas power stations and said "it would be a scandal" if "energy nation Norway" would need electricity rationing.

Other politicians have called for expensive plans to electrify Norway's offshore oil platforms — which run on gas turbines — to be dropped.

The government has responded carefully. Some of the most generous support to consumers in Europe will be increased, meaning the state will pick up 90 per cent of electricity bills over a certain price level.

Harder though is devising a scheme that could help businesses without merely encouraging an increase in consumption.

Left unsaid is how a big green transition in Norway's industry is likely to fare if there are already problems with supply. Norway is far ahead of the rest of the world in areas such as electric cars — eight in every 10 new vehicle sales produce zero emissions.

But it also has ambitious plans for green batteries, shipping and hydrogen that rely on plentiful — and cheap — hydropower.

Squaring all of that with continuing exports to Europe is a tricky feat. The government has given itself a week to come up with a mechanism that would allow it to stop exports when reservoir levels are below their seasonal average, something that is the case in most of southern Norway.

These are still mostly the problems of a lucky country but the warning signs flashing in Norway highlight just how tough this winter could be across Europe.

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